UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	**Chapter 11**
PINNACLE AIRLINES CORP., *et al.*,	**Case No. 12-11343 (REG)**
Debtors.	**(Jointly Administered)**

REPLY DECLARATION OF MARK SHAPIRO IN SUPPORT OF DEBTORS' MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS WITH THE AIR LINE PILOTS ASSOCIATION, INTERNATIONAL AND THE ASSOCIATION OF FLIGHT ATTENDANTS-CWA, PURSUANT TO 11 U.S.C. § 1113

Mark Shapiro declares and says:

1. I am a managing director of Barclays Capital Inc. ("**Barclays**"). Barclays is a registered broker-dealer with the United States Securities and Exchange Commission. Barclays serves as an investment banker and financial adviser to Pinnacle Airlines Corp. ("**Pinnacle**" or the "**Company**").

2. In preparing this supplemental declaration, I have conferred with our aviation investment bankers who have expertise with respect to the regional airline sector.

3. I previously submitted declarations in this case in conjunction with the filing of the memorandum of law in support of the 1113 Motion. (Declaration of Mark Shapiro in Support of Debtors' Motion to Reject Collective Bargaining Agreements with the Air Line Pilots Association, International and the Association of Flight Attendants-CWA Pursuant to 11 U.S.C. § 1113 dated September 13, 2012 (the "**September 13 Declaration**").) This current declaration updates and supplements that declaration with additional facts relevant to the Debtors' Section 1113 motion.

4. I offer this declaration in further support of Pinnacle's motion pursuant to 11 U.S.C. § 1113(c) for authorization to reject collective bargaining agreements with certain of its unions.

5. I have been asked to assess competitive positions of SkyWest and Republic in the regional airline industry and to compare their financial standing with that of Pinnacle.

6. Although SkyWest and Republic may have similar costs and seniority distributions to Pinnacle, the carriers are not comparable for a number of significant reasons including size, liquidity, and access to the capital markets at reasonable rates.

7. SkyWest and Republic are significantly larger companies than Pinnacle, and each has a more diversified set of sources of revenue. SkyWest's 2011 operating revenue was approximately $3.7 billion, which it derived from five different partners: United, Continental Airlines, Delta, U.S. Airways, and Alaska Airlines. Republic's 2011 operating revenue was approximately $2.9 billion, which it derived from five different partners: American Airlines, Continental Airlines, Delta, United Air Lines, and US Airways. Republic also has the further diversification of the revenue stream of Frontier Airlines, which flies under its own name. By comparison, Pinnacle is projecting 2013 revenue of approximately [redacted] all of which will come from a single customer, Delta.

8. SkyWest and Republic also own a material number of aircraft in their respective fleets, which gives them leverage when competing for new contracts. Per SkyWest's most recent Form 10-K, it owns 176 aircraft, and it recently announced that it ordered an additional 100 regional aircraft from Mitsubishi Aircraft Corp. Deliveries of those aircraft will start in 2017 and

are valued at $4.2 billion using list prices.[1] Per Republic's most recent Form 10-K, it owns 160 aircraft. Both SkyWest and Republic have access to aircraft financing which have allowed them to grow their fleets. By comparison, following the wind-down of United, Pinnacle will not own any aircraft. Given Pinnacle's current weak balance sheet, it would be very difficult for Pinnacle to negotiate an attractive order for new aircraft.

9. SkyWest and Republic also have significantly more liquidity than Pinnacle. SkyWest held approximately $610 million in cash and cash equivalents as of June 30, 2012, which is approximately 16.1% of its estimated 2013 operating revenue of $3.8 billion. (Sept. 13 Decl. Ex. 6.) Republic held approximately $180.3 million in cash and cash equivalents as of June 30, 2012, which is approximately 6.4% of its estimated 2013 operating revenue of $2.8 billion. (Sept. 13 Decl. Ex. 6.) Pinnacle, on the other hand, projects a cash balance of approximately [redacted] as of December 31, 2012 (Hughes Rep. Decl. ¶ 6), which is approximately [redacted] of projected 2013 operating revenue of approximately [redacted] (Hughes Decl. Ex. 3.) Companies with strong balance sheets have more flexibility in making attractive bids for new business; Pinnacle does not currently have such flexibility.

10. SkyWest and Republic are also public companies with access to the capital markets at much lower costs than Pinnacle. SkyWest and Republic have equity values of $543.3 million and $234.7 million respectively as of September 27, 2012. In addition, both companies have raised capital via common stock offerings in the last few years. On April 17, 2006, SkyWest completed a public offering of 4,000,000 shares of common stock at a price of $26.05 per share, which provided the company with approximately $95.4 million in net proceeds.

[1] Tim Catts & Frederic Tomesco, Mitsubishi Wins SkyWest Jet Sale in Blow to Bombardier, Bloomberg.com (July 12, 2012), http://www.bloomberg.com/news/2012-07-11/mitsubishi-wins-regional-jet-order-from-skywest.html.

Similarly, Republic raised \$101.9 million in a public offering of common stock in November 2010, and \$80.9 million and \$105.9 million from public offerings of common stock in February and July 2005, respectively. Pinnacle, on the other hand, as outlined in my September 13 Declaration, will have difficulty accessing the capital markets absent a competitive cost structure.

11. Equity research analysts have written extensively about SkyWest's leadership in the industry due to its size and liquidity:

a) The broad platform that SKYW has in its sector has the greatest depth and presence across the U.S. among its competitors. This enables it to be able to take advantage of any opportunities that may become available. This strategic position (balance sheet, liquidity, access to the capital markets at reasonable rates and relative strength in the industry) is more important than ever in a rapidly changing and consolidating industry with its main goals being to continue to reduce costs and to complete the post-merger integration. (Ex. 1, Ray Neidl, Maxim Group, Equity Research Company Update: SkyWest, Inc. (May 2, 2012).)

b) SKYW is having "ongoing discussions" with aircraft manufacturers about fleet replacement. It is a dominant force in the industry and we believe there are really no other U.S. regional airlines in the market that can drive volume pricing the way SKYW can. The end result is that SKYW may be able to provide flexible terms to its major airline partners on the length of the agreements to operate the aircraft. (Ex. 2, Ray Neidl, Maxim Group, Equity Research First Look: SkyWest Plans for the future; Reiterate Hold (July 13, 2012).)

c) Among regional jet operators, SKYW has a strong service reputation and the most favorable capacity purchase agreements that appear to lock in relatively high margins through 2020. SKYW restructuring efforts are beginning to bear fruit, and strong cash flow should enable return of capital in the intermediate-term. Long-term regional jet economics remain challenging, but SKYW best of breed and valuation seems appropriate in our view. (Ex. 3, Glenn D. Engel, CFA & David van der Keyl, Bank of America Merrill Lynch, SkyWest – Restructuring bears fruit: Upgrade to Neutral (Aug. 14, 2012).)

d) SKYW ended the quarter with $629.5[2] million in cash and marketable securities, up $46 million from the end of the prior quarter. Long-term debt was $1.53 billion or $50 million lower than at the end of the prior quarter. The company generated $111 million in operating cash flow in the June quarter. After getting through the bulk of its turnaround efforts, we think management is well-positioned to generate solid cash flows in periods to come. Share buybacks were said to be a "big topic of conversation" at the company, when evaluating opportunities for capital deployment. (Ex. 4, Michael Linenberg, Richa Talwar, Catherine O'Brien & Doug Runte, CFA, Deutsche Bank Markets Research, SkyWest – Turnaround accelerating; raising EPS forecast (Aug. 8, 2012).)

12. For all of the reasons set forth above, the recent award of 76-seat flying to SkyWest does not suggest that Pinnacle can achieve competitive viability under a similar cost structure. In my professional opinion, in light of the relative significant financial disadvantages faced by Pinnacle (when compared to SkyWest), Pinnacle's ability to compete requires a cost structure comparable to the lowest cost providers in the regional carrier market.

[2] Includes $19.4 million of restricted cash.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: New York, New York
October 12, 2012

Mark Shapiro